

VZCZCXRO6171
RR RUEHPT
DE RUEHBN #0111/01 2822241
ZNR UUUUU ZZH
R 092241Z OCT 09
FM AMCONSUL MELBOURNE
TO RUEHC/SECSTATE WASHDC 5007
INFO RUEHBJ/AMEMBASSY BEIJING 0080
RUEHBY/AMEMBASSY CANBERRA 3652
RUEHJA/AMEMBASSY JAKARTA 0055
RUEHKL/AMEMBASSY KUALA LUMPUR 0004
RUEHNE/AMEMBASSY NEW DELHI 0035
RUEHGP/AMEMBASSY SINGAPORE 0236
RUEHPT/AMCONSUL PERTH 1620
RUEHDN/AMCONSUL SYDNEY 2139
RUCPDO/DEPT OF COMMERCE WASHDC
RUEATRS/DEPT OF TREASURY WASHDC

UNCLAS SECTION 01 OF 02 MELBOURNE 000111

SENSITIVE
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E.O. 12958: N/A

TAGS: [EFIN](#) [ECON](#) [ETRD](#) [AS](#)

SUBJECT: AUSTRALIAN BANKS EXPANDING IN U.S. AND ASIA

Summary

1. (SBU) Australia's dominant "big four" banks have emerged from the global financial crisis healthy and looking abroad to expand. One bank has acquired a mid-sized U.S. regional bank and plans to purchase more, while the other banks are looking to China and Indonesia for growth. These banks are carrying nearly US\$5.2 billion in surplus capital, giving them scope for further expansion and putting them on track to return to record profits in 2010. Formerly large domestic banks with relatively small international footprints, the big four are now beginning to behave more globally in the aftermath of the financial crisis. End Summary.

What Financial Crisis?

2. (SBU) The "big four" Australian banks (Commonwealth, the National Australia Bank (NAB), Australia-New Zealand Banking Group (ANZ), and Westpac) have emerged from the global financial crisis (GFC) with strong balance sheets and healthy cash reserves. Though their market capitalization remains small compared to global peers, the big four are among only a handful of banks to have maintained AA risk ratings through the crisis. The big four, however, continue to avoid "risky" sectors such as real estate and the automotive industry.

3. (SBU) Until recently, these banks avoided overseas investment after several ventures in the United States in the 1990s led to losses. In addition, the domestic Australian market has proven profitable enough for the big four, mitigating the need to take on the risks associated with overseas expansion. However, the banks are looking to expand now that lending is slowly returning to a normal pace, unemployment is predicted to peak much lower than expected, and the GOA's stimulus measures such as the first-time homebuyer's incentive (which is widely lauded for holding up the real estate sector through the GFC) have helped limit bad debt expenses.

Agri-banking in the USA

4. (SBU) According to Deputy CEO Michael Ullmer, NAB surprised its competitors by spending US\$43 million to acquire Great Western, an 800-person U.S. bank. Ullmer said the other three banks remain somewhat apprehensive about investing in U.S. financial institutions. NAB believes it maintains a competitive edge over the other three Australian banks by providing regional agri-banking and sees the United

States and the Netherlands as logical extensions of this business. Ullmer indicated that NAB intends to make further investments in Colorado and other locations where it can capitalize on this expertise. He lamented, however, that U.S. financial regulations are "immensely complex with overlapping authorities that create uncertainty and the possibility of things slipping between the cracks."

China

15. (SBU) ANZ is positioning itself to be an "Asian bank based in Melbourne" according to its recently retired Chief Economist Saul Eslake. The bank plans to have 50 operating branches in China within five years, employing at least 2,000 staff. It opened its first regional bank on September 28 in Chongqing. ANZ still faces regulatory hurdles such as obtaining approval for a locally incorporated entity and individual approvals for each new branch; however CEO Mike Smith is confident approvals will come. (Note: Smith frequently touts his China credentials, citing his experience as HSBC's point man for China. End note.) In addition to China, ANZ has invested heavily in Malaysia and Indonesia. It also successfully bid against HSBC for the Australian and many Asian assets of the Royal Bank of Scotland.

16. (SBU) Westpac is also looking to China to fuel what it views as necessary foreign expansion. Senior economist Justin Smirk told Sydney Pol/Econoff that East Asia is the most logical base of operation for Westpac. In 2008, Westpac opened its first overseas branch in 15 years with a launch of

MELBOURNE 00000111 002 OF 002

a Shanghai office. (Note: Prior to this opening, Westpac opened branches in Singapore and Hong Kong in the mid 1980s. It has representative offices elsewhere in Asia. End note.)

Indonesia or India?

17. (SBU) Commonwealth's CEO Ralph Norris told Consul General in an earlier meeting that his bank is focused on expanding operations in Indonesia. Norris believes Indonesia's rapidly growing middle class prefers to save and invest with foreign banks and that Commonwealth's brand will work well there. Echoing other chief bankers' comments, Norris noted that the Australian domestic market is saturated and that banks must now look overseas to expand their deposit bases. Norris went on to say that Commonwealth will stay out of India due to its "tangled and cumbersome bureaucracy." NAB's Ullmer echoed this sentiment, saying that investing in India would require support from Canberra and a very long-term strategy.

Comment

18. (SBU) Australian banks do not have a good track record on overseas investment. NAB had previously invested in the United States in the 1990s and later lost a significant portion of its investment. Critics also highlight the cultural challenges of banking in Asia, pointing to "backfires" in the Republic of Korea, Thailand and the Philippines. Despite this checkered history, all four of Australia's big banks are looking beyond their borders again. After having bought just about everything in the Australian market, including a de facto 100 percent of the home lending market as well as large majorities of most other domestic markets, they are now looking to pick up bargains overseas.

19. (SBU) Comment continued: The big four do not intend to compete head to head with their much larger global peers, however. As ANZ's Mike Smith put it: "We have to be very niche and being niche you can still be big. This is a big market." It should be noted that as they expand overseas, Australian banks will continue to benefit from bank and deposit guarantees as well as a range of other indirect

government subsidies.

¶10. (U) This cable was coordinated with Consulate General Sydney and Embassy Canberra.

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